

Exhibit F



Center on an Aging Society
GEORGETOWN UNIVERSITY

CHALLENGES FOR THE 21ST CENTURY:

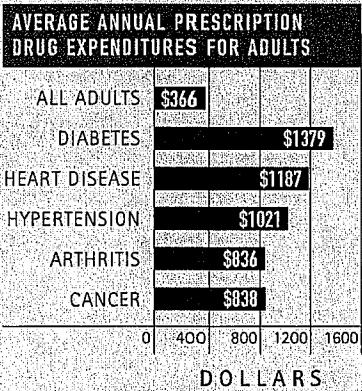
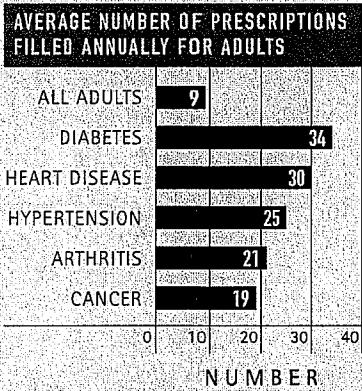
CHRONIC AND DISABLING CONDITIONS

Prescription Drugs

A vital component of health care

More than 131 million people — 66 percent of all adults in the United States — use prescription drugs. Utilization is particularly high for older people and those with chronic conditions. Prescription drugs are costly. Some \$73 billion — almost 16 percent of total health care expenditures — was spent on prescription drugs for adults in 1998.¹

CHRONIC CONDITIONS AND PRESCRIPTIONS



SOURCE: Center on an Aging Society analysis of data from the 1998 Medical Expenditure Panel Survey.

Prescription drugs are a vital component of efforts to maintain or improve health. Advances in new products and technology and increases in utilization — the number of people using prescribed medicines and the number of prescriptions per user — have contributed to increases in overall prescription drug spending.² The rising cost of prescription drugs affects everyone, but especially high prescription drug users, uninsured individuals, and health plans. Almost half of the cost of prescription drugs is paid out-of-pocket. Concerns about cost lead some consumers to take less than the prescribed medication.

People with chronic conditions depend on prescription drugs

The great majority of adults who have one of five common chronic conditions — diabetes, heart disease, hypertension, arthritis, and cancer — use prescription drugs. For example, 89 percent of people with arthritis and 98 percent of people with diabetes use prescription drugs. People with these conditions fill many prescriptions annually and have significant prescription drug expenditures. Adults with diabetes fill about 4 times as many prescriptions and spend about 4 times as much on prescription drugs as the general population. High prescription drug use may also reflect the fact that people have multiple chronic conditions.

FIGURE 1
Prescription Drug Use

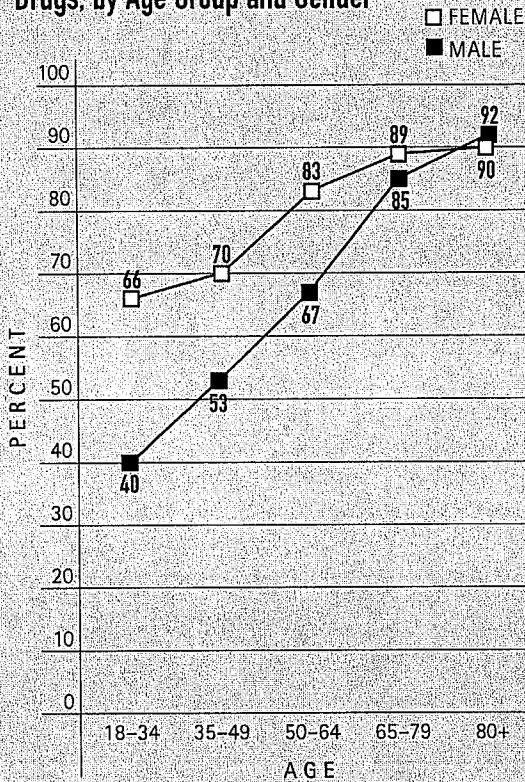
	PROPORTION OF ADULTS USING PRESCRIPTION DRUGS (%)	AVERAGE NUMBER OF PRESCRIPTIONS ILLED ANNUALLY
AGE		
18-34	53	3
35-49	62	6
50-64	75	13
65-79	87	20
80+	91	22
GENDER		
Male	56	7
Female	75	11
RACE		
White	68	10
Black	58	8
ETHNICITY		
Not Hispanic	67	10
Hispanic	53	5
ANNUAL FAMILY INCOME		
<\$20,000	72	13
\$55,000+	63	7
HEALTH STATUS		
Excellent/Very good	59	5
Fair/Poor	87	24

SOURCE: Center on an Aging Society analysis of data from the 1998 *Medical Expenditure Panel Survey*.

The gender gap in prescription drug use narrows with age

Women are generally more likely than men to use prescription drugs. The gap in prescription drug use between men and women is striking for younger populations. Some 40 percent of men and 66 percent of women age 18 to 34 use prescription drugs. Use patterns converge as people get older, however. Similar proportions of men and women age 65 and older are prescription drug users. For example, some 92 percent of men and 90 percent of women age 80 and older use prescription drugs (see Figure 2).

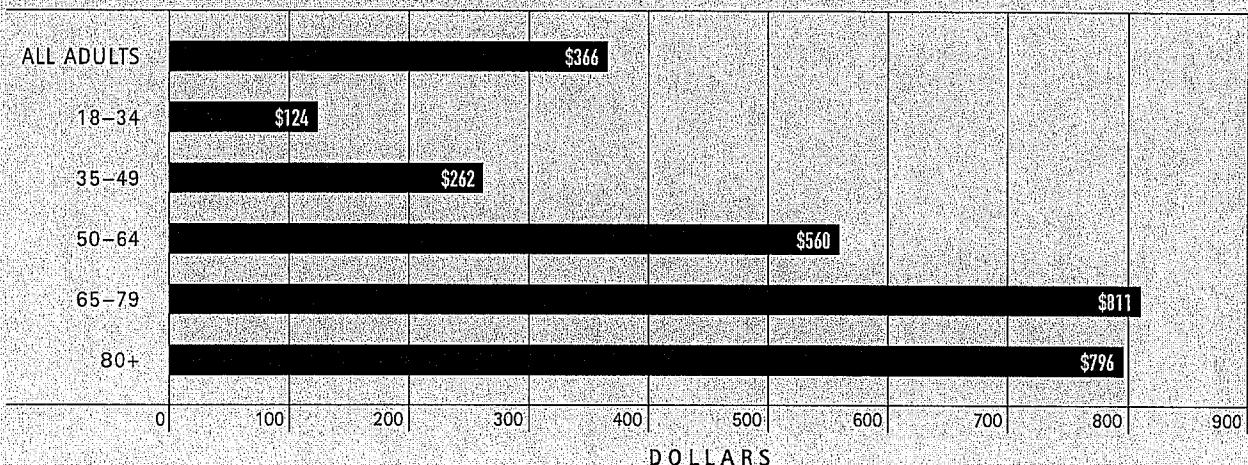
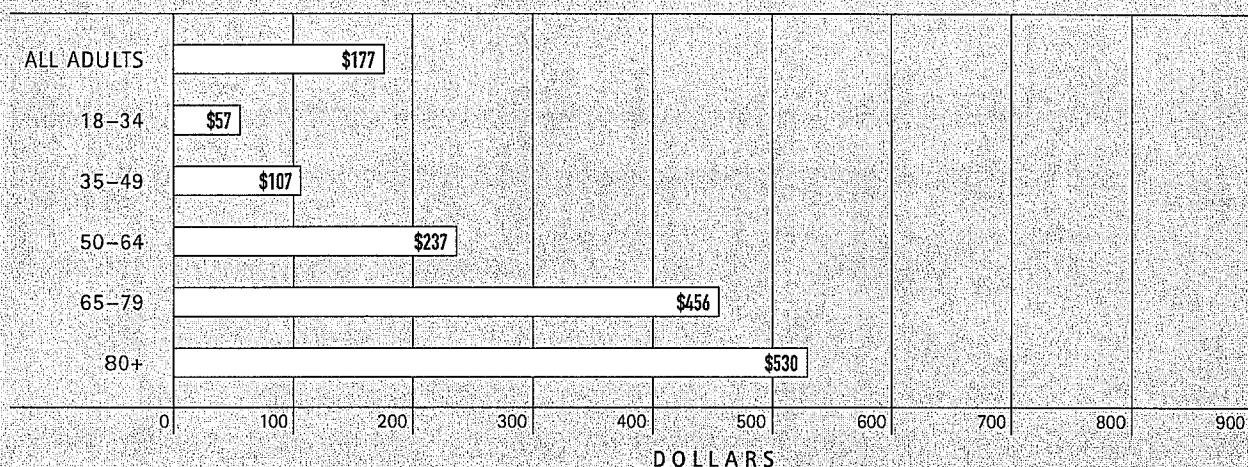
FIGURE 2
Proportion of People Using Prescription Drugs, by Age Group and Gender



SOURCE: Center on an Aging Society analysis of data from the 1998 *Medical Expenditure Panel Survey*.

Who uses prescription drugs?

The proportion of people using prescription drugs and the amount of prescriptions filled varies by demographic group. Prescription drug use is associated with age, gender, race and ethnicity, income, and health status. For example, prescription drug use increases with age. Three-quarters of those age 50 to 64 use prescription drugs, compared to 91 percent of those age 80 and older. The average number of prescriptions filled also increases with age, from 13 for those age 50 to 64 to 22 for those age 80 and older (see Figure 1).

FIGURE 3**Average Annual Prescription Drug Expenditures, by Age Group****FIGURE 4****Average Annual Out-of-Pocket Prescription Drug Expenditures, by Age Group**

SOURCE: Center on an Aging Society analysis of data from the 1998 *Medical Expenditure Panel Survey*.

Spending for prescription drugs increases with age

Prescription drug expenditures are highest for people age 65 and older. Drug expenditures are particularly high for the oldest adults. For example, average annual prescription drug expenditures for people age 80 and older are almost 1.5 times higher than those for people age 50 to 64 (see Figure 3).

Older consumers pay for more than half of prescription drug expenditures out-of-pocket

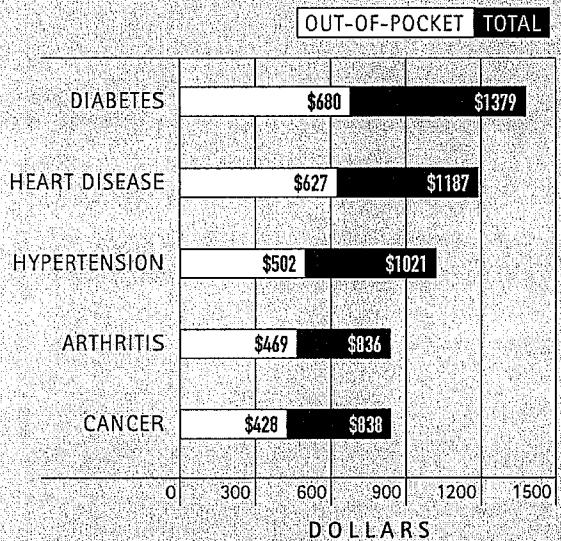
Annual average out-of-pocket prescription drug expenditures for all adults are \$177, but people age 65 and older pay much more for their medications. People age 65 to 79 pay \$456 out-of-pocket. People age 80 and older pay even more (see Figure 4).

Adults pay almost half – 48 percent – of their expenses for prescription drugs out-of-pocket, but persons age 65 to 79 pay 56 percent and those age 80 and older pay 67 percent of their total drug expenditures out-of-pocket.

Out-of-pocket costs are particularly high for people with chronic conditions

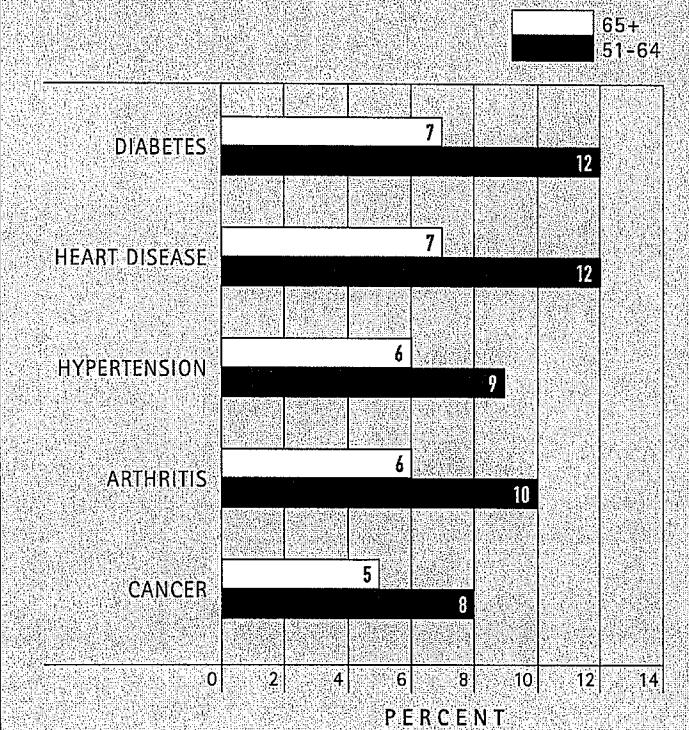
Consumers who have common chronic conditions have substantial prescription drug expenses. Since their total prescription drug expenditures are very high, their total out-of-pocket expenditures are also high. They pay about half of the cost of prescription drugs out-of-pocket. For example, adults with diabetes pay almost \$700 out-of-pocket each year (see Figure 5).

FIGURE 5
Average Annual Prescription Drug Expenditures and Out-of-Pocket Prescription Drug Expenditures, by Chronic Condition



SOURCE: Center on an Aging Society analysis of data from the 1998 Medical Expenditure Panel Survey.

FIGURE 6
Proportion of People Who Take Less Medication Than Prescribed Due to Cost, by Condition and Age Group



SOURCE: Center on an Aging Society analysis of data from the 1998 Health and Retirement Study.

that because of cost they take less than the prescribed amount of medication (see Figure 6). The practice of taking less medication than prescribed may increase overall health care costs if the result is more emergency room visits, hospital admissions, or physician visits.

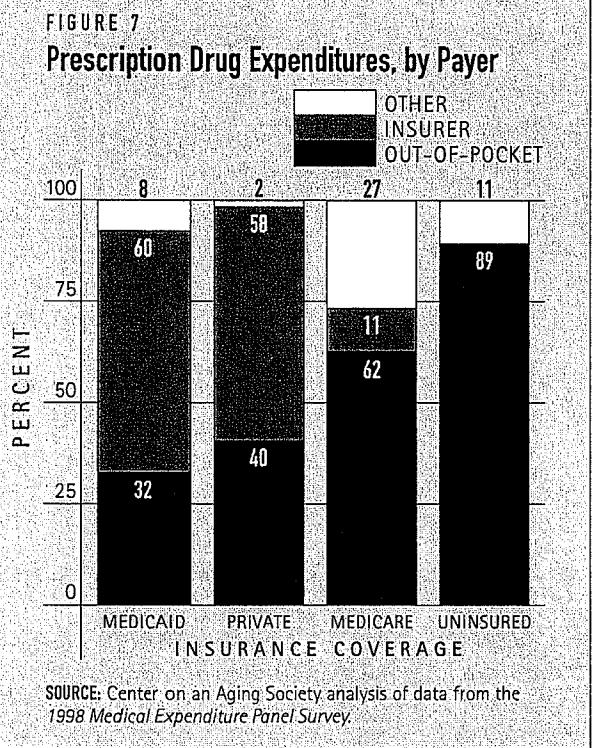
A study of people age 65 and older in eight states reports that a substantial proportion of people, in particular those with low incomes, take less medicine than prescribed. For example, 22 percent of respondents indicate that they had not filled prescriptions one or more times in the past year because of the cost. Some 23 percent say they skipped doses of medication to make it last longer. A substantial proportion of respondents – 21 percent – report that they spent less in the past year on food, heat, or other necessities so they could afford to purchase their medications.³

Cost affects compliance

Some people take less medication than prescribed because of the cost. This is a particular problem for more vulnerable populations. For example, among adults who report poor health, about one-fourth – 25 percent – of people age 51 to 64 and more than one-tenth – 12 percent – of people age 65 and older say that they have taken less medication than prescribed in the past two years because of the cost. Substantial proportions of people with common chronic conditions also report

CHALLENGES FOR THE 21ST CENTURY: CHRONIC AND DISABLING CONDITIONS

CHALLENGES FOR THE 21ST CENTURY:



Medicaid beneficiaries pay the smallest proportion of prescription drug costs out-of-pocket

The Medicaid program plays an important role in providing prescription drugs for a particularly vulnerable population. All Medicaid beneficiaries have very low incomes and almost one-third report fair or poor health status. Nationally, Medicaid covers 60 percent of prescription drug expenditures, but beneficiaries still must pay about one-third of the cost out-of-pocket. Because the program is state administered, the extent of Medicaid prescription drug coverage varies considerably among states, however. Medicare beneficiaries pay a much higher proportion of drug expenditures – 62 percent – out-of-pocket (see Figure 7).

The average annual out-of-pocket prescription drug expenditure for Medicare beneficiaries is \$581, compared to \$297 for those on Medicaid and \$156 for those with private insurance. For both the uninsured population and Medicare beneficiaries without prescription drug coverage, out-of-pocket drug expenditures may be high if they must pay the full retail price at the pharmacy.

FISCAL PRESSURES HAVE LED STATES TO CURB MEDICAID SPENDING ON PRESCRIPTION DRUGS

The Medicaid program is a significant part of state budgets. Over the past several years, Medicaid spending has grown. Spending on prescription drugs is one factor that has contributed to growth in Medicaid spending. Medicaid spending on prescription drugs grew, on average, by 18 percent between 1997 and 2000.⁴ In 2000, the program spent \$21 billion on prescription drugs.

As states struggle to balance budgets, many have adopted policies to control Medicaid spending for prescription drugs. More than half of states report changes in Medicaid prescription drug policies for fiscal year 2003. Many states are negotiating for larger discounts and rebates on their prescription purchases. Another popular strategy is to place some limits on the types of drugs that can be prescribed by requiring prior authorization for prescriptions, using a preferred drug list, or requiring that generic drugs be prescribed. Some policy changes may have a more immediate effect on beneficiaries. These include plans to require new or higher copayments from beneficiaries and rules that limit the number of prescriptions per month that Medicaid beneficiaries may fill.

Medicaid Pharmacy Policy Changes for Fiscal Year 2003

POLICY	NUMBER OF STATES
Negotiating discounts	26
Prior authorization for more prescriptions	22
Use of a preferred drug list	22
New or higher copayments	19
Seeking rebates	12
Requiring use of generic drugs	9
Limits on number of prescriptions per month	6

SOURCE: Wachino, V. (2002). *State budgets under stress: How are states planning to reduce the growth in Medicaid costs? Preliminary results based on the Kaiser Commission on Medicaid and the Uninsured 50-State Budget Survey*. Washington, DC: The Kaiser Commission on Medicaid and the Uninsured. Available at <http://www.kff.org>.

FIGURE 8

Demographic Characteristics of Herbal Remedy Users and the General Adult Population

		HERBAL REMEDY USERS (%)	GENERAL POPULATION (%)
AGE	18-44	47	55
	45-64	38	29
	65+	15	16
GENDER	Male	27	48
	Female	73	52
RACE	White	94	83
	Black	3	12
EDUCATION	< High School	8	18
	High School+	91	82
HEALTH STATUS	Excellent/Very Good	61	56
	Fair/Poor	13	15

SOURCE: Center on an Aging Society analysis of data from the 1998 Medical Expenditure Panel Survey.

ABOUT THE PROFILES

This is the second set of *Data Profiles* in the series, *Challenges for the 21st Century: Chronic and Disabling Conditions*. The series is supported by a grant from the Robert Wood Johnson Foundation. This *Profile* was written by Emily Ihara with assistance from Laura Summer and Lee Shirey. It is the fifth in the series. Previous *Profiles* include:

1. Screening for Chronic Conditions: Underused services
2. Childhood Obesity: A lifelong threat to health
3. Visual Impairment: A growing concern as the population ages
4. Cancer: A major national concern

The Center on an Aging Society is a Washington-based nonpartisan policy group located at Georgetown University's Institute for Health Care Research and Policy. The Center studies the impact of demographic changes on public and private institutions and on the economic and health security of families and people of all ages.

Some people use herbal remedies

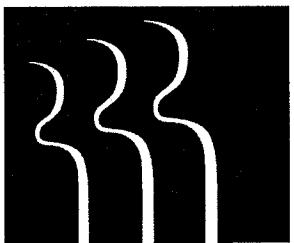
More than 3 million people report using herbal remedies. The great majority of herbal remedy users are women. Herbal drug users tend to be white and to be better educated than the general population. They also are in somewhat better health than the general population (see Figure 8).

1. In the 1998 *Medical Expenditure Panel Survey*, total health care expenditures are defined as inpatient hospital and physician services, ambulatory physician and nonphysician services, prescribed medicines, home health services, dental services, and various other medical equipment and services that were purchased or rented during the year.
2. Bruen, B.K. (2002). *States strive to limit Medicaid expenditures for prescribed drugs*. Washington, DC: The Kaiser Commission on Medicaid and the Uninsured. Available at <http://www.kff.org>.
3. Safran, D.G., P. Neuman, C. Schoen, J.E. Montgomery, W Li, I.B. Wilson, M.S. Kitchman, A.E. Bowen, and W.H. Rogers. (2002). "Prescription drug coverage and seniors: How well are states closing the gap?" *Health Affairs - Web Exclusive*: W253-W268. Available at <http://www.healthaffairs.org>.
4. Schneider, A. and L. Elam. (2002). *Medicaid: Purchasing prescription drugs*. Washington, DC: The Kaiser Commission on Medicaid and the Uninsured. Available at <http://www.kff.org>.

ABOUT THE DATA

Unless otherwise noted, the data presented in this *Profile* are from two national surveys of the United States civilian non-institutionalized population. The 1998 Medical Expenditure Panel Survey (MEPS), cosponsored by the Agency for Healthcare Research and Quality and the National Center for Health Statistics, provides national estimates of health care use, expenditures, sources of payment, and insurance coverage. The 1998 Health and Retirement Study (HRS) provides information about the population age 51 and older. HRS is sponsored by the National Institute on Aging and conducted by the Institute for Social Research at the University of Michigan.

Center on an Aging Society GEORGETOWN UNIVERSITY



2233 Wisconsin Avenue NW
Suite 525
Washington, DC 20007

TEL 202.687.9840
FAX 202.687.3110

WEBSITE www.aging-society.org

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Exhibit G

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22 Issue

December 6

Higher Out-of-Pocket Costs Cause Massive Non-Compliance in the Use of Prescription Drugs, and This Is Likely to Grow

The sicker people are, and the more drugs they need, the more likely they are to be non-compliant

One of the biggest changes in the American health care system over the last few years has been the rapid increase in out-of-pocket costs for prescription drugs. This trend will surely continue for the next few years, and it may even accelerate. All of the following are contributing to the rapidly rising out-of-pocket costs of medication:

- The introduction of new, often better, drugs which are substantially more expensive than those used previously.
- Changes in health plans and drug coverage, with large increases in co-pays, deductibles and co-insurance, designed to control rapidly growing health care costs.
- Increases in utilization driven partly by the introduction of new drugs and partly by direct-to-consumer advertising.
- Increases in the prices of drugs already available.
- The increased use of tiered formularies with large co-pays for drugs in the higher tiers.

A new Harris Interactive survey shows that as a direct result of the high out-of-pocket cost of drugs, many millions of people do not ask doctors for the prescriptions they need, do not fill the prescriptions they are given, use lower doses of drugs than those prescribed and take their drugs less often than they should. The higher people's out-of-pocket costs for drugs, the more likely they are to be non-compliant. Furthermore, non-compliance is much worse among people in only fair or poor health – the people who need the drugs the most – than among those in good health.

We are not talking about small numbers here. Non-compliance has become a massive and widespread problem, and given the big increases in cost-sharing in many health plans that are coming in 2003 and 2004, it seems very likely that non-compliance will get much worse over the next few years.

Consider these numbers for four different things people do, or don't do, because of the out-of-pocket costs of prescription drugs.

Not asking for prescriptions because of the cost

While 18% of all adults have done this in the last twelve months, this proportion rises to fully 41% of those with out-of-pocket costs* of \$151 or more per month, and 33% of those in only fair or poor health.

Not filling a prescription because of the cost

More than one in five (22%) of all adults did this in the last year, and this rises to 46% of those with out-of-pocket costs* of \$151 or more per month, and 41% of those in only fair or poor health.

*Defined as the cost to consumers if they took all the prescription drugs they should take.

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December 6**Using a lower dose to make a prescription last longer**

While 15% of all adults did this in the last year, this rises to 48% of those with out-of-pocket costs* of \$151 or more per month, and 29% of those in only fair or poor health.

Using a drug less often than prescribed to make it last longer

While 18% of all adults did this in the last twelve months, it was fully 46% of those with out-of-pocket costs* of \$151 or more per month, and 37% of those in fair or poor health, who used their drugs less to make them last longer.

*Defined as the cost to consumers if they took all the prescription drugs they should take.

TABLE 1**Four Different Types of Non-Compliance Are All Much Higher for Those Who Need Drugs the Most**

"Over the last twelve months, has there been a time when you...?"

	Base: All Adults	Have Condition for Which Take Regular Medication	Monthly Out-of-Pocket Cost* of Drugs				Health Status	
			\$0 - \$20	\$21 - \$50	\$51 - \$150	\$151 or More	Excellent/ Very Good (Net)	Fair/ Poor (Net)
	%	%	%	%	%	%	%	%
Did not ask your doctor for a prescription because of the cost	18	23	9	11	30	41	12	33
Did not fill a prescription a doctor gave you because of the cost	22	30	5	20	42	46	13	41
Used a lower dose of prescription to make it last longer, because of the cost	15	21	-	5	30	48	8	29
Used a prescription drug less often than prescribed because of the cost	18	25	4	7	34	46	11	37

TABLE 2**Those Taking Regular Medication (34% of all Adults)**

Base: All Adults

	%
\$0 - \$20 per month	6
\$21 - \$50 per month	7
\$51 - \$150 per month	10
More than \$150	11
Total	34

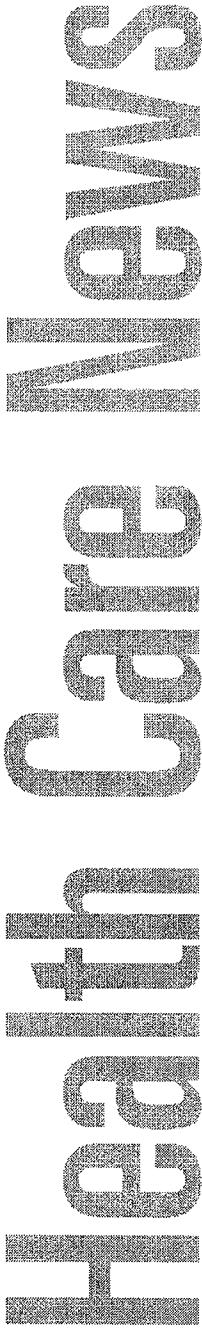
These are the results of a nationwide Harris Interactive survey of 1,010 adults conducted by telephone between November 14 and 18, 2002.

The magnitude of non-compliance revealed in this survey, and the near certainty that it will get much worse over the next few years as consumer cost-sharing rises, raise several very serious questions:

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- **What is the health impact of this non-compliance?** It seems probable that if people are not taking the medications they need to control their blood pressure, their cholesterol, their diabetes or their arthritis (to name just four very common conditions) that the impact of non-compliance is very serious and will lead to significantly higher levels of mortality and morbidity.
- **What is the impact of this non-compliance on costs?** While there are obviously large short-term savings when people do not consume the drugs they need, the longer-term impact may be increased costs as more people become seriously ill, are hospitalized and require expensive medical care, which would not have been needed if they had been compliant.
- **Have pharmaceutical companies made a mistake in resisting a generous Medicare drug benefit?** The pharmaceutical industry has always feared, and usually opposed, a Medicare drug benefit because it believed, quite reasonably, that if the government were to pay for drugs, it would seek to contain spending through some form of price controls. This is true in almost all foreign countries. However, as Uwe Reinhardt, renowned health economist at Princeton University, and others have pointed out, *profits = volume x margin*, and higher volumes can make up for lower prices.

These data suggest that the industry is now losing billions of dollars in sales because of non-compliance, and that these lost sales will grow rapidly. There may well come a time when the industry decides that higher volume at lower margins (and prices which would make them less vulnerable to attacks for "price gouging") would be good for their business.

Methodology

This survey was conducted by telephone within the United States between November 14 and 18, 2002, among a nationwide cross section of 1,010 adults (ages 18+). Figures for age, sex, race, education, number of adults and number of voice/telephone lines in the household were weighted where necessary to align them with their actual proportions in the population.

In theory, with a probability sample of this size, one can say with 95 percent certainty that the results have a statistical precision of plus or minus 3 percentage points of what they would be if the entire adult population had been polled with complete accuracy. Unfortunately, there are several other possible sources of error in all polls or surveys that are probably more serious than theoretical calculations of sampling error. They include refusals to be interviewed (non-response), question wording and question order, interviewer bias, weighting by demographic control data and screening (e.g., for likely voters). It is impossible to quantify the errors that may result from these factors.

These statements conform to the principles of disclosure of the National Council on Public Polls.

For more information, please contact us at:

877.919.4765
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Media inquiries, contact:
Nancy Wong 585.214.7316

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